

ANALYSIS OF AMENDED BILL

Author: Blakeslee & DeVore Analyst: Rachel Coco Bill Number: AB 294
 Related Bills: See Legislative History Telephone: 845-4328 Amended Date: April 28, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT:

California National Guard Tax Credit/Life Insurance Premium

SUMMARY

This bill would provide certain California National Guard members a tax credit for life insurance premiums.

SUMMARY OF AMENDMENTS

The April 28, 2005, amendments removed language that would have required the Department of Veteran Affairs to reimburse a member of the California National Guard for the cost of purchasing a life insurance policy.

The April 28, 2005, amendments added language that would provide a tax credit for life insurance premiums paid by members of the California National Guard.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to provide tax relief for family members of the California National Guard who suffer financially when the member is called to duty.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately and operative beginning on or after January 1, 2005.

POSITION

Pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

5/9/05

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Under current state and federal law, veterans' organizations consisting of past or present members of the armed forces are exempt from taxation, other than tax on unrelated business income. Unrelated business income does not include amounts attributable to payments of life insurance with respect to members of these organizations or their dependents that is set aside for the purpose of providing for the payment of insurance benefits.

Current federal law provides the Servicemembers' Group Life Insurance for all members of the armed forces and their families, including the National Guard. The monthly premium paid by members on active duty varies from 65 cents for \$10,000 minimum coverage to \$16.25 for the maximum coverage of \$250,000. In addition, members may also purchase family coverage. The premium varies with the age of the spouse and the amount of coverage.

THIS BILL

This bill would allow a tax credit for qualified individuals in an amount equal to the amount paid or incurred for a qualifying life insurance policy premium in a taxable year. The amount of the credit would be limited to a maximum of \$200 per year.

This bill would define "qualified persons" as California National Guard members on active federal service or full-time National Guard duty on behalf of the United States either voluntarily or when involuntarily ordered to duty.

This bill would define "qualified life insurance premium" as life insurance premiums paid by the qualified person under either 1) the Servicemembers' Group Life Insurance program or 2) a group life insurance program sponsored by the Military Department or the National Guard Association of California.

This bill would allow any unused credit to be carried over only to the following taxable year.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

OTHER STATES' INFORMATION

The states surveyed include *Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

A review of each state's tax forms found that none of the states allowed a credit similar to the one that would be allowed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of AB 294 as Amended 4/28/05 Taxable Years Beginning On Or After January 1, 2005 Assumed Enactment After June 30, 2005 (\$ millions)			
Fiscal Year	2005/2006	2006/2007	2007/2008
Revenue Loss	-\$1	-\$1	-\$1

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Based on information from the California National Guard approximately 4,000 to 7,000 members are on active duty in any given month, with the average being 6,000 a month for the past year. Members can purchase life insurance from the federal Serviceman's Group Life Insurance plan, which has a maximum benefit amount of \$250,000. The members are responsible for paying the premiums for this insurance at a cost of approximately \$17 per month (\$204 annually) for maximum coverage. According to the California National Guard, most all members called to active duty purchase the maximum coverage. Based on that information the revenue loss from this bill would be approximately \$1 million annually beginning with the 2005/2006 fiscal year. (6,000 on active duty x \$200 amount of credit x 75% usage = \$.9 million rounded to \$1 million). This number will drop significantly when the current military conflicts subside.

ARGUMENTS/POLICY CONCERNS

This bill does not specify a repeal date. Credits typically are enacted with a repeal date to allow the Legislature to periodically review their effectiveness.

This bill would treat similarly situated taxpayers differently since all members of the uniformed services pay a premium to maintain life insurance policies.

A number of veterans' organizations offer group term life insurance to members of the uniformed services, including members of the National Guard and their families. This bill would treat premiums for group term life insurance purchased from the National Guard Association of California differently than premiums for group term life insurance purchased from other veterans' organizations.

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